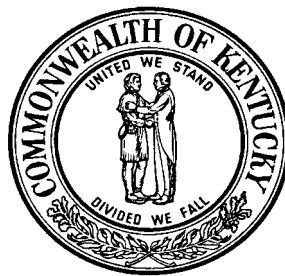


**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Blaine Phillips, McCreary County Judge/Executive

Members of the McCreary County Fiscal Court

The enclosed report prepared by Christian, Sturgeon & Associates, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McCreary County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

We engaged Christian, Sturgeon & Associates, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Christian, Sturgeon & Associates, PSC evaluated McCreary County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
MCCREARY COUNTY FISCAL COURT

June 30, 2009

Christian, Sturgeon & Associates, PSC has completed the audit of the McCreary County Fiscal Court for fiscal year ended June 30, 2009.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of McCreary County, Kentucky.

The financial statements of the McCreary County Industrial Development Authority, a discretely presented component unit, have not been included in the financial statements. As a result, we have issued an adverse opinion on the aggregate discretely presented component units.

Financial Condition:

The fiscal court had net assets of \$8,380,698 in its governmental activities as of June 30, 2009. The fiscal court had unrestricted net assets of \$2,607,244 in its governmental activities as of June 30, 2009. The fiscal court's discretely presented component units had net assets of \$1,964,975 as of June 30, 2009. The discretely presented component units had net cash and cash equivalents of \$288,788. The business-type activities had net cash and cash equivalents of \$8,229. The fiscal court had total debt principal as of June 30, 2009 of \$4,836,351 with \$352,015 due within the next year. The discretely presented component units had total debt principal as of June 30, 2009 of \$237,928 with \$21,288 due within the next year.

Report Comments:

| | |
|---------|---|
| 2009-01 | The County Should Pay Invoices Within Thirty Days |
| 2009-02 | Lack of Segregation of Duties Over The Jail Canteen Account |
| 2009-03 | The Stearns Historical Area Development Authority Should Implement Compensating Internal Controls |
| 2009-04 | The Bank Accounts Of The Tourism Commission Are Not Reconciled And Cash Receipts And Disbursements Are Not Recorded |
| 2009-05 | The Jailer Did Not Report Annually To The County Treasurer On The Jail Canteen Account |
| 2009-06 | The County Did Not Pay Retirement On Qualified Part-Time Employees |

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities.

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Certified Public Accountants
1075 EAST FOURTH STREET
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LONDON, KENTUCKY 40743-0901
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Fax 606-864-3003

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Blaine Phillips, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of McCreary County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the McCreary County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, McCreary County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of McCreary County, Kentucky do not include the financial data of the McCreary County Industrial Development Authority. This entity meets the criteria to be reported as a discretely presented component unit of McCreary County, Kentucky, in accordance with accounting principles generally accepted in the United States of America.

In our opinion, because of the omission of financial data for the McCreary County Industrial Development Authority, the financial statements referred to above do not present fairly, in all material respects, the financial position of the aggregate discretely presented component units of McCreary County, Kentucky, as of June 30, 2009, and the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Additionally, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of McCreary County, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
 Honorable Steven L. Beshear, Governor
 Jonathan Miller, Secretary
 Finance and Administration Cabinet
 Honorable Blaine Phillips, McCreary County Judge/Executive
 Members of the McCreary County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise McCreary County, Kentucky's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2009 on our consideration of McCreary County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the Comments and Recommendations, included herein, which discusses the following report comments:

- | | |
|---------|---|
| 2009-01 | The County Should Pay Invoices Within Thirty Days |
| 2009-02 | Lack of Segregation of Duties Over The Jail Canteen Account |
| 2009-03 | The Stearns Historical Area Development Authority Should Implement Compensating Internal Controls |
| 2009-04 | The Bank Accounts Of The Tourism Commission Are Not Reconciled And Cash Receipts And Disbursements Are Not Recorded |
| 2009-05 | The Jailer Did Not Report Annually To The County Treasurer On The Jail Canteen Account |
| 2009-06 | The County Did Not Pay Retirement On Qualified Part-Time Employees |

Respectfully submitted,

Christian, Sturgeon & Associates, PSC
 Certified Public Accountants

October 30, 2009

MCCREARY COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

| | |
|-----------------|------------------------|
| Blaine Phillips | County Judge/Executive |
| Judy Redden | Magistrate |
| Ralph Murphy | Magistrate |
| Teddy Coffey | Magistrate |
| Roger Phillips | Magistrate |

Other Elected Officials:

| | |
|------------------|----------------------------------|
| Michelle Wilson | County Attorney |
| Tony Ball | Jailer |
| Eric Haynes | County Clerk |
| Othel King | Circuit Court Clerk |
| Gus Skinner, Jr. | Sheriff |
| Bruce Lominac | Property Valuation Administrator |
| Daniel Ridner | Coroner |

Appointed Personnel:

| | |
|------------------|----------------------------|
| Donna Ross | County Treasurer |
| Stephanie Tucker | Occupational Tax Collector |
| Candice Greene | Finance Officer |

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MCCREARY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

MCCREARY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

| | Primary Government | | | Component |
|--|---------------------------|----------------------|--------------|------------------|
| | Governmental | Business-Type | Total | Units |
| | Activities | Activities | | |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 2,129,951 | \$ 8,229 | \$ 2,138,180 | \$ 288,788 |
| Investments | 423,651 | | 423,651 | |
| Notes Receivable | 77,293 | | 77,293 | |
| Total Current Assets | 2,630,895 | 8,229 | 2,639,124 | 288,788 |
| Noncurrent Assets: | | | | |
| Notes Receivable | 700,000 | | 700,000 | |
| Allowance For Doubtful Accounts | (300,000) | | (300,000) | |
| Capital Assets - Net of Accumulated Depreciation | | | | |
| Land and Land Improvements | 574,011 | | 574,011 | 121,000 |
| Land Improvements | | | | 338,721 |
| Construction In Progress | 1,630,852 | | 1,630,852 | |
| Buildings | 5,717,551 | | 5,717,551 | 1,391,243 |
| Other Equipment | 228,579 | | 228,579 | 51,451 |
| Vehicles and Equipment | 740,568 | | 740,568 | 11,700 |
| Infrastructure | 1,294,593 | | 1,294,593 | |
| Total Noncurrent Assets | 10,586,154 | | 10,586,154 | 1,914,115 |
| Total Assets | 13,217,049 | 8,229 | 13,225,278 | 2,202,903 |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Revenue Bonds Payable | 225,000 | | 225,000 | |
| Financing Obligations Payable | 127,015 | | 127,015 | 21,288 |
| Total Current Liabilities | 352,015 | | 352,015 | 21,288 |
| Noncurrent Liabilities: | | | | |
| Revenue Bonds Payable | 3,520,000 | | 3,520,000 | |
| Financing Obligations Payable | 964,336 | | 964,336 | 216,640 |
| Total Noncurrent Liabilities | 4,484,336 | | 4,484,336 | 216,640 |
| Total Liabilities | 4,836,351 | | 4,836,351 | 237,928 |
| NET ASSETS | | | | |
| Invested in Capital Assets, | | | | |
| Net of Related Debt | 5,349,803 | | 5,349,803 | 1,676,187 |
| Restricted For: | | | | |
| Debt Service | 423,651 | | 423,651 | |
| Unrestricted | 2,607,244 | 8,229 | 2,615,473 | 288,788 |
| Total Net Assets | \$ 8,380,698 | \$ 8,229 | \$ 8,388,927 | \$ 1,964,975 |

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

MCCREARY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

| | | Program Revenues Received | | |
|---|--------------|---------------------------|------------------------------------|----------------------------------|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General Government | \$ 1,891,412 | \$ | \$ 504,094 | \$ |
| Protection to Persons and Property | 2,088,461 | 673,455 | 391,183 | |
| General Health and Sanitation | 108,902 | | | |
| Social Services | 29,412 | | | |
| Recreation and Culture | 235,684 | | | |
| Transportation Facilities and Services | 131,513 | | | |
| Roads | 857,167 | | 1,345,348 | |
| Interest On Long-term Debt | 389,162 | | | 400,949 |
| Capital Projects | 1,126,160 | | | 1,848,386 |
| Total Governmental Activities | 6,857,873 | 673,455 | 2,240,625 | 2,249,335 |
| Business-type Activities: | | | | |
| Jail Canteen | 56,893 | 50,476 | | |
| Total Business-type Activities | 56,893 | 50,476 | | |
| Total Primary Government | 6,914,766 | 723,931 | 2,240,625 | 2,249,335 |
| Component Units: | | | | |
| Solid Waste Management Board | 34,232 | 36,596 | | |
| Tourism Commission | 69,502 | | 68,406 | |
| McCreary County Airport Board | 16,815 | 1,242 | 3,380 | 20,819 |
| Stearns Historical Area Development Authority | 64,225 | | | 29,787 |
| McCreary County Park Board | 925,180 | | 220,350 | 274,271 |
| Total Component Units | \$ 1,109,954 | \$ 37,838 | \$ 292,136 | \$ 324,877 |

General Revenues:

Taxes:

Real Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Other Taxes

In Lieu Tax Payments

Excess Fees

Miscellaneous Revenues

Interest

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

| Net (Expenses) Revenues and Changes in Net Assets | | | |
|--|-----------------------------|----------------|--------------------|
| Primary Government | | | |
| Governmental Activities | Business-Type Activities | Total | Component Units |
| \$ (1,387,318) | \$ | \$ (1,387,318) | \$ |
| (1,023,823) | | (1,023,823) | |
| (108,902) | | (108,902) | |
| (29,412) | | (29,412) | |
| (235,684) | | (235,684) | |
| (131,513) | | (131,513) | |
| 488,181 | | 488,181 | |
| 11,787 | | 11,787 | |
| 722,226 | | 722,226 | |
| (1,694,458) | | (1,694,458) | |
| | (6,417) | (6,417) | |
| | (6,417) | (6,417) | |
| (1,694,458) | (6,417) | (1,700,875) | |
| | | | 2,364 |
| | | | (1,096) |
| | | | 8,626 |
| | | | (34,438) |
| | | | (430,559) |
| | | | (455,103) |
| 359,295 | | 359,295 | |
| 114,506 | | 114,506 | |
| 998,388 | | 998,388 | |
| 461,329 | | 461,329 | |
| 1,041,493 | | 1,041,493 | |
| 38,779 | | 38,779 | |
| 189,485 | | 189,485 | 4,451 |
| 43,671 | | 43,671 | 3,072 |
| 3,246,946 | | 3,246,946 | 7,523 |
| 1,552,488 | (6,417) | 1,546,071 | (447,580) |
| 6,828,210 | 14,646 | 6,842,856 | 2,412,555 |
| \$ 8,380,698 | \$ 8,229 | \$ 8,388,927 | \$ 1,964,975 |

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

MCCREARY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

| | General Fund | Road Fund | Jail Fund | Local Government Economic Assistance Fund |
|---------------------------|-------------------------|----------------------|----------------------|--|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 954,319 | \$ 678,961 | \$ 12,373 | \$ 221,417 |
| Investments | | | | |
| Total Assets | <u>954,319</u> | <u>678,961</u> | <u>12,373</u> | <u>221,417</u> |
| FUND BALANCES | | | | |
| Reserved for: | | | | |
| Debt Service | | | | |
| Occupational Tax | | | | |
| Unreserved: | | | | |
| General Fund | 954,319 | | | |
| Special Revenue Funds | | 678,961 | 12,373 | 221,417 |
| Total Fund Balances | <u>\$ 954,319</u> | <u>\$ 678,961</u> | <u>\$ 12,373</u> | <u>\$ 221,417</u> |

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

(Continued)

| McCreary County | | | | |
|--|---|--------------------------|------------------------|--------------------------------|
| Local Government Economic Development Fund | Courthouse and Public Square Corporation Fund | Occupational Tax Fund | Non- Major Funds | Total Governmental Funds |
| \$ | \$ | \$ 41,671 | \$ 221,210 | \$ 2,129,951 |
| | 423,651 | | | 423,651 |
| | 423,651 | 41,671 | 221,210 | 2,553,602 |
| | 423,651 | | | 423,651 |
| | | 41,671 | | 41,671 |
| | | | | 954,319 |
| | | | 221,210 | 1,133,961 |
| \$ | \$ 423,651 | \$ 41,671 | \$ 221,210 | \$ 2,553,602 |

Reconciliation of the Balance Sheet to Statement of Net Assets:

| | |
|--|--------------|
| Total Fund Balances | \$ 2,553,602 |
| Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because: | |
| Notes Receivable | 777,293 |
| Allowance For Doubtful Accounts | (300,000) |
| Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds. | 13,220,005 |
| Accumulated Depreciation | (3,033,851) |
| Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds. | |
| Financing Obligations | (1,091,351) |
| Bonds | (3,745,000) |
| Net Assets Of Governmental Activities | \$ 8,380,698 |

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

| | General Fund | Road Fund | Jail Fund | Local Government Economic Assistance Fund |
|--|-------------------------|----------------------|----------------------|--|
| REVENUES | | | | |
| Taxes | \$ 633,990 | \$ | \$ | \$ |
| In Lieu Tax Payments | 316,107 | 725,386 | | |
| Excess Fees | 38,779 | | | |
| Licenses and Permits | 94,611 | | | |
| Intergovernmental Revenues | 336,082 | 1,345,348 | 391,183 | 139,340 |
| Charges for Services | 673,455 | | | |
| Miscellaneous | 72,125 | 64,418 | 23,634 | |
| Interest | 1,610 | 2,121 | 74 | 586 |
| Total Revenues | <u>2,166,759</u> | <u>2,137,273</u> | <u>414,891</u> | <u>139,926</u> |
| EXPENDITURES | | | | |
| General Government | 567,604 | | | |
| Protection to Persons and Property | 1,285,449 | | 563,842 | |
| General Health and Sanitation | 105,680 | | | |
| Social Services | | | | |
| Recreation and Culture | 31,354 | | | |
| Transportation Facilities and Services | | 131,513 | | |
| Roads | | 723,300 | | 1,200 |
| Debt Service | 32,045 | 12,846 | 22,674 | 235,872 |
| Capital Projects | 323,184 | | | |
| Administration | 555,535 | 608,224 | 131,818 | |
| Total Expenditures | <u>2,900,851</u> | <u>1,475,883</u> | <u>718,334</u> | <u>237,072</u> |
| Excess (Deficiency) of Revenues | | | | |
| Expenditures Before Other | | | | |
| Financing Sources (Uses) | <u>(734,092)</u> | <u>661,390</u> | <u>(303,443)</u> | <u>(97,146)</u> |
| Other Financing Sources (Uses) | | | | |
| Debt Issuance | 323,184 | | | |
| Transfers From Other Funds | 821,134 | | 284,775 | |
| Transfers To Other Funds | (190,000) | (368,509) | | |
| Total Other Financing Sources (Uses) | <u>954,318</u> | <u>(368,509)</u> | <u>284,775</u> | |
| Net Change in Fund Balances | 220,226 | 292,881 | (18,668) | (97,146) |
| Fund Balances - Beginning | 734,093 | 386,080 | 31,041 | 318,563 |
| Fund Balances - Ending | <u>\$ 954,319</u> | <u>\$ 678,961</u> | <u>\$ 12,373</u> | <u>\$ 221,417</u> |

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

| | Local Government Economic Development Fund | McCreary County Courthouse and Public Square Corporation Fund | Occupational Tax Fund | Non- Major Funds | Total Governmental Funds |
|--|---|--|--------------------------------------|---------------------------------|---|
| REVENUES | | | | | |
| Taxes | \$ | \$ | \$ 998,388 | \$ 206,529 | \$ 1,838,907 |
| In Lieu Tax Payments | | | | | 1,041,493 |
| Excess Fees | | | | | 38,779 |
| Licenses and Permits | | | | | 94,611 |
| Intergovernmental Revenues | 1,848,386 | 400,949 | | 28,672 | 4,489,960 |
| Charges for Services | | | | | 673,455 |
| Miscellaneous | | | | 43,128 | 203,305 |
| Interest | | 23,177 | 748 | 15,355 | 43,671 |
| Total Revenues | <u>1,848,386</u> | <u>424,126</u> | <u>999,136</u> | <u>293,684</u> | <u>8,424,181</u> |
| EXPENDITURES | | | | | |
| General Government | 2,022 | | | 75,936 | 645,562 |
| Protection to Persons and Property | | | | 182,459 | 2,031,750 |
| General Health and Sanitation | | | | | 105,680 |
| Social Services | | | | 29,412 | 29,412 |
| Recreation and Culture | | | 200,609 | 2,197 | 234,160 |
| Transportation Facilities and Services | | | | | 131,513 |
| Roads | | | | | 724,500 |
| Debt Service | | 418,066 | | 29,039 | 750,542 |
| Capital Projects | 2,035,915 | | | | 2,359,099 |
| Administration | | 2,530 | | 51,329 | 1,349,436 |
| Total Expenditures | <u>2,037,937</u> | <u>420,596</u> | <u>200,609</u> | <u>370,372</u> | <u>8,361,654</u> |
| Excess (Deficiency) of Revenues | | | | | |
| Expenditures Before Other | | | | | |
| Financing Sources (Uses) | <u>(189,551)</u> | <u>3,530</u> | <u>798,527</u> | <u>(76,688)</u> | <u>62,527</u> |
| Other Financing Sources (Uses) | | | | | |
| Debt Issuance | | | | | 323,184 |
| Transfers From Other Funds | 189,551 | | | 47,388 | 1,342,848 |
| Transfers To Other Funds | | | (784,339) | | (1,342,848) |
| Total Other Financing Sources (Uses) | <u>189,551</u> | <u></u> | <u>(784,339)</u> | <u>47,388</u> | <u>323,184</u> |
| Net Change in Fund Balances | | 3,530 | 14,188 | (29,300) | 385,711 |
| Fund Balances - Beginning | | 420,121 | 27,483 | 250,510 | 2,167,891 |
| Fund Balances - Ending | <u>\$</u> | <u>\$ 423,651</u> | <u>\$ 41,671</u> | <u>\$ 221,210</u> | <u>\$ 2,553,602</u> |

The accompanying notes are an integral part of the financial statements.

**MCCREARY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

MCCREARY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

| | |
|--|------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 385,711 |
|--|------------|

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

| | |
|--|-----------|
| Capital Outlay | 1,232,939 |
| Depreciation Expense | (292,081) |
| Asset Disposed of, Net Book Value | (68,457) |
| Governmental funds report receipt of principal payments on notes receivable as revenue when received. However in the statement of net assets notes receivable are presented as a decrease to notes receivable. | |
| | (43,820) |
| Governmental funds report additions of principal on notes receivable as expenses when disbursed. However, in the statement of net assets notes receivable are presented as an increase to notes receivable. | |
| | 75,000 |
| Decrease in allowance for doubtful accounts | 30,000 |

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

| | |
|--|-----------|
| Proceeds of Financing Obligations | (323,184) |
| Bond Principal Payments | 215,000 |
| Bank Loan Payments | 195,000 |
| Financing Obligations Principal Payments | 146,380 |

| | |
|---|--------------|
| Change in Net Assets of Governmental Activities | \$ 1,552,488 |
|---|--------------|

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MCCREARY COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

MCCREARY COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

| | Business-Type Activities - Enterprise Fund |
|---------------------------|---|
| | Jail Canteen Fund |
| Assets | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 8,229 |
| Total Current Assets | <u>8,229</u> |
| Total Assets | <u>8,229</u> |
| Net Assets | |
| Unrestricted | <u>8,229</u> |
| Total Net Assets | <u><u>\$ 8,229</u></u> |

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

| | Business-Type Activities - Enterprise Fund |
|------------------------------|---|
| | Jail Canteen Fund |
| Operating Revenues | |
| Canteen Receipts | \$ 50,476 |
| Total Operating Revenues | <u>50,476</u> |
| Operating Expenses | |
| Cost of Sales | (39,679) |
| Sales Tax | (3,003) |
| Recreation & Education | <u>(14,211)</u> |
| Total Operating Expenses | <u>(56,893)</u> |
| Operating Income (Loss) | <u>(6,417)</u> |
| Change In Net Assets | (6,417) |
| Total Net Assets - Beginning | <u>14,646</u> |
| Total Net Assets - Ending | <u><u>\$ 8,229</u></u> |

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MCCREARY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

| | Business-Type Activities - Enterprise Fund |
|--|---|
| | Jail Canteen Fund |
| Cash Flows From Operating Activities | |
| Receipts From Customers | \$ 50,476 |
| Cost of Sales | (39,679) |
| Sales Tax | (3,003) |
| Recreational & Education | (14,211) |
| Net Cash Used in | |
| Operating Activities | (6,417) |
| Net Decrease in Cash and Cash Equivalents | (6,417) |
| Cash and Cash Equivalents - July 1, 2008 | 14,646 |
| Cash and Cash Equivalents - June 30, 2009 | \$ 8,229 |
| Reconciliation of Operating Income to Net Cash Used in Operating Activities | |
| Operating Income (Loss) | \$ (6,417) |
| Net Cash Used in Operating Activities | \$ (6,417) |

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF NET ASSETS - COMPONENT UNITS - MODIFIED CASH BASIS

June 30, 2009

MCCREARY COUNTY
STATEMENT OF NET ASSETS - COMPONENT UNITS - MODIFIED CASH BASIS

June 30, 2009

| | Solid Waste Management Board | Tourism Commission | McCreary County Airport Board | Stearns Historical Area Development Authority | McCreary County Park Board | Total Component Units |
|---|---|-------------------------------|--|--|---|--------------------------------------|
| Assets | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 29,610 | \$ 19,122 | \$ 63,225 | \$ 2,896 | \$ 173,935 | \$ 288,788 |
| Total Current Assets | 29,610 | 19,122 | 63,225 | 2,896 | 173,935 | 288,788 |
| Noncurrent Assets: | | | | | | |
| Capital Assets - Net of Accumulated Depreciation: | | | | | | |
| Land | | | 91,000 | 30,000 | | 121,000 |
| Land Improvements | | | 338,721 | | | 338,721 |
| Buildings | | | 193,878 | 1,197,365 | | 1,391,243 |
| Other Equipment | | | 51,451 | | | 51,451 |
| Vehicles and Equipment | | | 11,700 | | | 11,700 |
| Total Noncurrent Assets | | | 686,750 | 1,227,365 | | 1,914,115 |
| Total Assets | 29,610 | 19,122 | 749,975 | 1,230,261 | 173,935 | 2,202,903 |
| Current Liabilities: | | | | | | |
| Financing Obligations | | | | 21,288 | | 21,288 |
| Total Current Liabilities | | | | 21,288 | | 21,288 |
| Noncurrent Liabilities: | | | | | | |
| Financing Obligations | | | | 216,640 | | 216,640 |
| Total Noncurrent Liabilities | | | | 216,640 | | 216,640 |
| Total Liabilities | | | | 237,928 | | 237,928 |
| Net Assets | | | | | | |
| Invested in Capital Assets, Net of Related Debt | | | | | | |
| Unrestricted | 29,610 | 19,122 | 63,225 | 2,896 | 173,935 | 288,788 |
| Total Net Assets | \$ 29,610 | \$ 19,122 | \$ 749,975 | \$ 992,333 | \$ 173,935 | \$ 1,964,975 |

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF ACTIVITIES - COMPONENT UNITS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MCCREARY COUNTY
STATEMENT OF ACTIVITIES - COMPONENT UNITS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

| | Solid Waste Management Board | Tourism Commission | McCreary County Airport Board | Stearns Historical Area Development Authority | McCreary County Park Board | Total Component Units |
|---------------------------------------|---|-------------------------------|--|--|---|--------------------------------------|
| Expenses | \$ 34,232 | \$ 69,502 | \$ 16,815 | \$ 64,225 | \$ 925,180 | \$ 1,109,954 |
| Program Revenues: | | | | | | |
| Charges For Services | 36,596 | | 1,242 | | | 37,838 |
| Operating Grants and Contributions | | 68,406 | 3,380 | | 220,350 | 292,136 |
| Capital Grants and Contributions | | | 20,819 | 29,787 | 274,271 | 324,877 |
| Total Program Revenues | 36,596 | 68,406 | 25,441 | 29,787 | 494,621 | 654,851 |
| Net Program Revenues | 2,364 | (1,096) | 8,626 | (34,438) | (430,559) | (455,103) |
| General Revenues | | | | | | |
| Miscellaneous Revenues | | | 437 | | 4,014 | 4,451 |
| Interest | | 94 | 1,593 | | 1,385 | 3,072 |
| Total General Revenues | | 94 | 2,030 | | 5,399 | 7,523 |
| Change in Net Assets | 2,364 | (1,002) | 10,656 | (34,438) | (425,160) | (447,580) |
| Net Assets - Beginning | 27,246 | 20,124 | 739,319 | 1,026,771 | 599,095 | 2,412,555 |
| Net Assets Ending | \$ 29,610 | \$ 19,122 | \$ 749,975 | \$ 992,333 | \$ 173,935 | \$ 1,964,975 |

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The reporting entity presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of McCreary County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

There is no incorporated city within McCreary County; therefore, the below entities cannot be included as part of another local government within McCreary County. Based upon criteria stated in GASB Statements 14 and 39, the following legally separate entities are considered as part of the reporting entity of the McCreary County Fiscal Court:

- A. McCreary County Courthouse and Public Square Corporation,
- B. McCreary County Solid Waste Management Board,
- C. McCreary County Tourism Commission,
- D. McCreary County Airport Board,
- E. Stearns Historical Area Development Authority,

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

- F. McCreary County Industrial Development Authority,
- G. McCreary County Park Board.

Blended Component Units

The following legally separate organization provides services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

McCreary County Courthouse and Public Square Corporation

The McCreary County Courthouse and Public Square Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the fiscal court. The Corporation's governing body consists entirely of fiscal court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the fiscal court.

Discretely Presented Component Units

The component units' columns in the combined financial statements include the data of the following organizations. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

McCreary County Solid Waste Management Board

The McCreary County Solid Waste Management Board was established by the McCreary County Fiscal Court to administer solid waste activities within the county. The activities consist of collecting a franchise fees tax, which was adopted by the McCreary County Fiscal Court, and using the proceeds to work toward cleaning up and preventing solid waste within the county. The county provides additional funding to the Solid Waste Management Board, as needed to carry out the board's objectives. Therefore, management must include the board as a component unit, and the board's financial activity will be discretely presented with that of the fiscal court.

McCreary County Tourism Commission

The McCreary County Tourism Commission was established by the McCreary County Fiscal Court for the purpose of promoting recreational, tourism, and convention activities within the county. In order to finance the operations and maintenance of the McCreary County Tourism Commission, the McCreary County Fiscal Court levied a transient room tax of three (3%) and charged the Commission with the duty of collecting the tax. Therefore, management must include the Commission as a component unit, and the Commission's financial activity will be discretely presented with that of the fiscal court.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

McCreary County Airport Board

The McCreary County Fiscal Court established the McCreary County Airport Board. The board is responsible for the building, expansion, and maintenance of an airport within the county. The fiscal court's objective is that having an airport within the county will promote industrial development to the county. Therefore, management must include the board as a component unit, and the board's financial activity will be discretely presented with that of the fiscal court.

Stearns Historical Area Development Authority

The McCreary County Fiscal Court established the Stearns Historical Area Development Authority (SHADA). It was created by the fiscal court to account for receipts and expenditures relating to the project to restore and revitalize historical buildings in Stearns, Kentucky. The Stearns Community is a former coal-mining town, which is a tourist attraction for McCreary County. The property in Stearns is leased out to and is operated by the McCreary County Heritage Foundation, which is a not-for-profit organization that is legally separate from the McCreary County Fiscal Court. Therefore, management must include SHADA as a component unit, and the authority's financial activity will be discretely presented with that of the fiscal court. The McCreary County Heritage Foundation will not be presented as part of the fiscal court's reporting package, since it is independent of the fiscal court.

McCreary County Industrial Development Authority

The McCreary County Fiscal Court established the McCreary County Industrial Development Authority solely for the purpose of acquiring and improving interest in real estate and other facilities and properties for the ultimate benefit of the county. The Authority consists of six members, which are appointed by the County Judge/Executive and approved by the Fiscal Court. The Authority's functions include the recruitment and retention of industry and promotion of economic and industrial development within the County. Therefore, management must include the Authority as a component unit and the Authority's financial activities should have been discretely presented with that of the fiscal court. The Authority's financial statements, however, were not furnished to us and have not been included.

McCreary County Park Board

The McCreary County Fiscal Court established the McCreary County Park Board for the purpose of developing, constructing, operating, administering, maintaining, and equipping property donated from the McCreary County Educational foundation, Inc. and the 4-H Conservation Camp as a community and recreational area, senior citizen facility, fairgrounds, ball fields, and other facilities and to administer the 4-H Conservation Camp. Therefore, management must include the board as a component unit, and the board's financial activity will be discretely presented with that of the fiscal court.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. McCreary County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting McCreary County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of McCreary County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government (DLG) requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund - The primary source of this fund is coal and severance tax grants from the state. These funds are to be spent on priority expenditure categories as specified by statute. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Development Fund - This primary purpose of this fund is to account for expenses used to promote economic development in the County. The primary source of income for this fund is state grants.

Occupational Tax Fund - The primary purpose of this fund is to account for the collection of occupational tax. The primary source of revenue for this fund is occupational employment tax and net profit tax.

McCreary County Courthouse and Public Square Corporation - This fund is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. This is an unbudgeted fund of the county.

The primary government also has the following non-major funds: RBEG-RLF Fund, Emergency 911 Dispatch Fund, Senior Fund, Champions Fund, SMART Works Fund, Disaster Assistance Fund, and the Kentucky Association of Counties Leasing Trust Acquisition (KACOLT) 911 Equipment Fund.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Rural Business Enterprise Grant - Revolving Loan Fund (RBEG-RLF Fund), Occupational Tax Fund, Emergency 911 Dispatch Fund, Local Government Economic Development Fund, SMART Works Fund, Disaster Assistance Fund, Senior Fund, Champions Fund, and the Kentucky Association of Counties Leasing Trust Acquisition (KACOLT) 911 Equipment Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The McCreary County Courthouse and Public Square Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Presentation of Component Units And Significant Transactions

The financial statements present the following major discretely presented component units: McCreary County Solid Waste Management Board, McCreary County Tourism Commission, McCreary County Airport Board, Stearns Historical Area Development Authority, and McCreary County Park Board. The McCreary County Industrial Development Authority is not presented in the current year.

McCreary County Solid Waste Management Board accounts for the activities relating to the collection of solid waste within the County.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Presentation of Component Units And Significant Transactions (Continued)

McCreary County Tourism Commission accounts for the activities related to the promotion of tourism within the County. McCreary County Fiscal Court's significant transactions with the Tourism Commission for fiscal year ended June 30, 2009 are \$25,242 for transient room tax collections.

McCreary County Airport Board accounts for the activities relating to the County airport. McCreary County Fiscal Court's significant transaction with the Airport Board for fiscal year ended June 30, 2009 is \$20,819 for Enterprise Community Grant benchmark activities.

Stearns Historical Area Development Authority accounts for activities relating to the projects to restore and revitalize the buildings in Stearns, Kentucky.

McCreary County Park Board accounts for activities related to the County Park. McCreary County Fiscal Court's significant transactions with the Park Board for the fiscal year ended June 30, 2009 was \$268,074 from the County's occupational tax fund.

The McCreary County Industrial Development Authority accounts for activities relating to the recruitment and retention of industry and promotion of economic and industrial development within the County. McCreary County Fiscal Court's significant transactions with the Authority for fiscal year ended June 30, 2009 are payments of \$189,551 from the county's occupational tax fund.

These component units, with the exception of the Industrial Development Authority, are presented in a separate column in the government-wide financial statements that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

| | <u>Capitalization Threshold</u> | <u>Useful Life (Years)</u> |
|-------------------------|-------------------------------------|--------------------------------|
| Land Improvements | \$ 5,000 | 10-60 |
| Buildings | \$ 5,000 | 10-75 |
| Building Improvements | \$ 5,000 | 20-25 |
| Machinery and Equipment | \$ 5,000 | 3-25 |
| Infrastructure | \$ 5,000 | 10-50 |
| Intangible | \$ 5,000 | 2-40 |

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget was not adopted for the McCreary County Courthouse Public Square Corporation Fund, a blended component unit. The corporation issued bonds for the addition of the judicial building, which AOC has occupied, onto the existing courthouse. The fiscal court has assumed responsibility for this debt; however, the Administrative Office of the Courts has entered into a leasing agreement with the county agreeing to pay all of the bond payments directly to the bondholders, on behalf of the fiscal court. Therefore, the county did not budget any bond payments to be made from the county’s funds.

A formal budget was not adopted for the Kentucky Association of Counties Leasing Trust Acquisition 911 Equipment Fund. This county-owned account was established by a third party administrator to account for the lease purchase proceeds for 911 equipment obtained by the county. The Department for Local Government does not require the fiscal court to report or budget these funds.

Formal budgets were not adopted for the Solid Waste Management Board, the Tourism Commission, the McCreary County Airport Board, the Stearns Historical Area Development Authority, and the McCreary County Park Board, because these entities are component units of the fiscal court and the financial activity is not required to be included in the budget or financial statements of the primary government. The fiscal court established these entities as component units, which are operated independently of the McCreary County Fiscal Court. These entities are included as discretely presented component units on the county’s financial statements.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, deposits were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of June 30, 2009, the county had the following investments:

| <u>Investments</u> | <u>Cost</u> | <u>Interest Rate</u> | <u>Maturity Date</u> |
|----------------------------|-------------------|--------------------------|--------------------------|
| Primary Government: | | | |
| Guaranteed Investment | | | |
| Contract (GIC) | <u>\$ 423,651</u> | 5.43% | 09/01/20 |

A guaranteed investment contract (GIC) is a group annuity contract designed to provide guarantees of principal and interest on funds deposited with an insurance company for a specified period of time. GICs are generally not evidenced by securities that exist physically and are not classified into credit risk categories.

Interest Rate Risk. The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Credit Risk. KRS 66.480 limits the County's investments in the following:

- Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government.
- Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity.
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency.
- Bankers' acceptances for bank's rate in one of the three highest categories by a nationally recognized rating agency.
- Commercial paper rated in the highest category by a nationally recognized agency.
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency.
- Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments.

Also, the County is limited to investing no more than 20% in any one of four specifically mentioned investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices.

Note 3. Operating Leases

The fiscal court entered into various lease agreements for copiers, mailing scales, and telephone equipment. The future minimum lease payments for these leases are as follows:

| Fiscal Year Ended June 30 | Amount |
|------------------------------|-----------------|
| 2010 | \$ 2,875 |
| Total Minimum Lease Payments | <u>\$ 2,875</u> |

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Receivables

In 1994, McCreary County, in cooperation with Scott County, Tennessee, formed the Rural Enterprise Community known as Scott-McCreary Area Revitalization Team (SMART) for the purpose of increasing economic development in these two counties. As a part of this effort, SMART-approved low interest rate loans were made available to eligible businesses from Enterprise Community Program funds, which were passed through to the County from the U. S. Department of Health and Human Services. In order to account for the loan repayments, McCreary County established the SMART Works Fund. In 1998, the County was also awarded Rural Business Enterprise Grants (RBEG) for SMART-approved low interest rate loans to eligible businesses, which were passed through the U. S. Department of Agriculture. The County deposited the RBEG loan repayments and reflected the RBEG receivables in the SMART Works Fund. During fiscal year ended June 30, 2004, federal officials informed the County that RBEG loan repayments should be accounted for separately. In December 2003, the County established the RBEG Revolving Loan Fund and transferred appropriate funds related to the RBEG loans from the SMART Works Fund to the RBEG Revolving Loan Fund. The County may use the loan repayments of the SMART Works Fund and the RBEG Revolving Loan Fund in accordance with each federal program's guidelines. The balance of receivables due as of June 30, 2009 for each fund is as follows:

| Description | Monthly Payment | Loan Term (Years) | Interest Rate | Principal Balance June 30, 2009 |
|-----------------------------------|----------------------------|----------------------------------|--------------------------|--|
| SMART Works Fund: | | | | |
| Archery Unlimited | \$ 418 | 5 | 7.25% | \$ 20,120 |
| B&D Printing, LLC | 183 | 5 | 5.00% | 361 |
| Bethel Mower Repair | 156 | 3 | 7.50% | 3,456 |
| Blue Heron Restaurant | 587 | 10 | 7.25% | 44,662 |
| Central Gas | 732 | 12 | 6.00% | 75,000 |
| Jack Winchester | 156 | 3 | 7.50% | 4,118 |
| G&T Janitorial Service | 171 | 3 | 7.50% | 19,565 |
| Café Machiato | 500 | 10 | 6.00% | 41,037 |
| King's Tire & Recycling | 638 | 7 | 2.00% | 42,133 |
| Total SMART Works Fund | | | | <u>250,452</u> |
| RBEG - Revolving Loan Fund | | | | |
| Thoroughbred Express | 364 | 15 | 3.75% | 50,668 |
| Greater Air Systems | 1,195 | 15 | 5.00% | 142,472 |
| Farmhouse Primitives | 301 | 7 | 6.00% | 14,401 |
| It's A Dollar | 364 | 4 | 7.50% | 12,141 |
| Little Lambs Child Care Center | 227 | 10 | 6.50% | 9,880 |
| Marcum's Pressure Washing | 418 | 5 | 7.25% | 20,709 |
| McCreary Heritage Foundation | 1,591 | 10 | 5.00% | 80,518 |
| Moonlight Reidge Properties | 1,450 | 6 | 6.00% | 57,598 |
| Phil's Auto Repair | 730 | 10 | 6.00% | 73,199 |
| Tammie's Allstar Cuts | 552 | 10 | 5.00% | 15,462 |
| Zip Printing | 829 | 8 | 6.00% | 49,793 |
| Total RBEG Revolving Loan Fund | | | | <u>526,841</u> |
| | | | Total | <u><u>\$ 777,293</u></u> |

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

| | Reporting Entity | | | |
|---|----------------------|------------|-------------|-------------------|
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Primary Government: | | | | |
| <u>Governmental Activities:</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land and Land Improvements | \$ 574,011 | \$ | \$ | \$ 574,011 |
| Construction in Progress | 755,638 | 875,214 | | 1,630,852 |
| Total Capital Assets Not Being Depreciated | 1,329,649 | 875,214 | | 2,204,863 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings | 6,978,618 | | | 6,978,618 |
| Other Equipment | 560,290 | 27,541 | (9,400) | 578,431 |
| Vehicles and Equipment | 1,749,499 | 330,184 | (153,280) | 1,926,403 |
| Infrastructure | 1,531,690 | | | 1,531,690 |
| Total Capital Assets Being Depreciated | 10,820,097 | 357,725 | (162,680) | 11,015,142 |
| Less Accumulated Depreciation For: | | | | |
| Buildings | (1,158,673) | (102,394) | | (1,261,067) |
| Other Equipment | (316,131) | (37,281) | 3,560 | (349,852) |
| Vehicles and Equipment | (1,175,114) | (101,384) | 90,663 | (1,185,835) |
| Infrastructure | (186,075) | (51,022) | | (237,097) |
| Total Accumulated Depreciation | (2,835,993) | (292,081) | 94,223 | (3,033,851) |
| Total Capital Assets, Being Depreciated, Net | 7,984,104 | 65,644 | (68,457) | 7,981,291 |
| Governmental Activities Capital Assets, Net | \$ 9,313,753 | \$ 940,858 | \$ (68,457) | \$ 10,186,154 |

Depreciation expense was charged to functions of the primary government as follows:

| | |
|--|-------------------|
| <u>Governmental Activities:</u> | |
| General Government | \$ 97,957 |
| Protection to Persons and Property | 56,711 |
| General Health and Sanitation | 3,222 |
| Recreation and Culture | 1,524 |
| Roads, Including Depreciation of General Infrastructure Assets | <u>132,667</u> |
| Total Depreciation Expense - Governmental Activities | <u>\$ 292,081</u> |

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Capital Assets (Continued)

Capital asset activity for discretely presented component units for the year ended June 30, 2009 were as follows:

| | McCreary County Airport Board | | | |
|---|-------------------------------|------------|-----------|-------------------|
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 91,000 | | \$ | \$ 91,000 |
| Total Capital Assets Not Being Depreciated | 91,000 | | | 91,000 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings | 215,878 | | | 215,878 |
| Land Improvements | 340,720 | 10,121 | | 350,841 |
| Other Equipment | 72,176 | | | 72,176 |
| Vehicles and Equipment | 18,400 | | | 18,400 |
| Total Capital Assets Being Depreciated | 647,174 | 10,121 | | 657,295 |
| Less Accumulated Depreciation For: | | | | |
| Buildings | (20,043) | (1,957) | | (22,000) |
| Land Improvements | (6,423) | (5,697) | | (12,120) |
| Other Equipment | (16,580) | (4,145) | | (20,725) |
| Vehicles and Equipment | (5,360) | (1,340) | | (6,700) |
| Total Accumulated Depreciation | (48,406) | (13,139) | | (61,545) |
| Total Capital Assets, Being Depreciated, Net | 598,768 | (3,018) | | 595,750 |
| Governmental Activities Capital Assets, Net | \$ 689,768 | \$ (3,018) | \$ 0 | \$ 686,750 |

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Capital Assets (Continued)

| | Stearns Historical Area Development Authority | | | |
|---|---|--------------------|-----------|---------------------|
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Capital Assets Not Being Depreciated: | | | | |
| Land and Land Improvements | \$ 30,000 | \$ | \$ | \$ 30,000 |
| Total Capital Assets Not Being Depreciated | 30,000 | | | 30,000 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings | 1,967,483 | | | 1,967,483 |
| Total Capital Assets Being Depreciated | 1,967,483 | | | 1,967,483 |
| Less Accumulated Depreciation For: | | | | |
| Buildings | (717,652) | (52,466) | | (770,118) |
| Total Accumulated Depreciation | (717,652) | (52,466) | | (770,118) |
| Total Capital Assets, Being Depreciated, Net | 1,249,831 | (52,466) | | 1,197,365 |
| Governmental Activities Capital Assets, Net | <u>\$ 1,279,831</u> | <u>\$ (52,466)</u> | <u>\$</u> | <u>\$ 1,227,365</u> |

Depreciation expense was charged to functions of the discretely presented major component units as follows:

| | |
|--|------------------|
| McCreary County Airport Board | \$ 13,139 |
| Stearns Historical Area Development Authority | <u>52,466</u> |
| Total Depreciation Expense - Governmental Activities | <u>\$ 65,605</u> |

Note 6. Short-term Debt

- A. On June 20, 2007, the county entered into a financing agreement with the Kentucky Association of Counties for the purpose of purchasing two dump trucks for the total price of \$195,000. The terms of the agreement were 13 months at an interest rate of 4.9%. The dump trucks were sold in June 2009. The loan was repaid in full in July 2009.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Short-term Debt (Continued)

Changes In Short-term Liabilities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|-------------|-------------------|-------------------|------------------------|
| Primary Government: | | | | | |
| <u>Governmental Activities:</u> | | | | | |
| Bank Notes Payable | \$ 195,000 | \$ 0 | \$ 195,000 | \$ 0 | \$ 0 |
| Governmental Activities Short-term Liabilities | <u>\$ 195,000</u> | <u>\$ 0</u> | <u>\$ 195,000</u> | <u>\$ 0</u> | <u>\$ 0</u> |

Note 7. Long-term Debt

A. First Mortgage Revenue Bonds (Court Facilities Project), Series 1999A

On November 1, 1999, the McCreary County Courthouse and Public Square Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center, which is attached to the courthouse and obtaining rental space for the AOC at the Justice Center. In November of 1999, the McCreary County Courthouse and Public Square Corporation issued First Mortgage Revenue Bonds in the amount of \$5,205,000 in order to construct the McCreary County Justice Center.

The McCreary County Courthouse and Public Square Corporation designated the County to act as its agent in order to plan, design, construct, manage, and maintain the Justice Center. The McCreary County Courthouse and Public Square Corporation expects annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under terms of the lease, the AOC has agreed to pay directly to the paying agent bank the use allowances payments as provided in the lease. The lease agreement is renewable each year. The McCreary County Courthouse and Public Square Corporation is dependent upon the use of allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2020, but the lease does not legally obligate the AOC to do so.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Long-term Debt

A. First Mortgage Revenue Bonds (Court Facilities Project), Series 1999A (Continued)

The debt service requirements for the First Mortgage Revenue Bonds are presented as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|---------------------|---------------------|
| 2010 | \$ 225,000 | \$ 191,736 |
| 2011 | 240,000 | 179,763 |
| 2012 | 250,000 | 167,145 |
| 2013 | 265,000 | 153,884 |
| 2014 | 280,000 | 139,850 |
| 2015-2019 | 1,645,000 | 456,095 |
| 2020-2021 | 840,000 | 46,980 |
| Totals | <u>\$ 3,745,000</u> | <u>\$ 1,335,453</u> |

B. Long-Term Lease Participation Agreement

The Kentucky Local Correctional Facilities Authority (KLCFA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. On October 15, 1984 McCreary county entered into a lease participation agreement and financial plan for jail construction costs with KLCFA, which was subsequently amended February 15, 1987, agreeing to pay KLCFA lease payments equal to \$316,534 principal plus a proportional share of interest on the KCLFA's Multi-County Correctional Refunding and Improvement Bonds, 1987 Series. On February 1, 1994, KLCFA issued its Multi-County Correctional Facilities Refunding Bonds, 1994 Series, refunding the 1987 Series. On October 13, 2004, KLCFA issued its Multi-County Correctional Facilities Revenue Refunding Bonds, Series 2004, refunding the 1994 Series. As of October 13, 2004, McCreary County's outstanding principal balance on its lease participation agreement with KLCFA for the County's share of the 1994 Series was \$182,172. McCreary County's proportionate share of the October 13, 2004 refunding resulted in an additional principal reduction of \$18,907 and interest savings of \$7,852.

The second amended lease participation agreement dated October 1, 2004 between KLCFA and McCreary County requires an annual principal payment to be made by October 1 and semi-annual interest payments to be made on October 1 and April 1. Interest rates range from 6.92% to 6.94%. As of June 30, 2009, the principal balance on the agreement for McCreary County's share of KLCFA's 2004 Series was \$110,681. Lease participation payments for the remaining years are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|-------------------|------------------|
| 2010 | \$ 15,499 | \$ 7,139 |
| 2011 | 16,573 | 6,028 |
| 2012 | 17,722 | 4,840 |
| 2013 | 18,950 | 3,568 |
| 2014 | 20,265 | 2,207 |
| 2015 | 21,672 | 752 |
| Totals | <u>\$ 110,681</u> | <u>\$ 24,534</u> |

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Long Term Debt (Continued)

C. Two Mack Trucks

On December 8, 2008, the McCreary County Fiscal Court entered into a 5-year financing obligation with KACo Leasing Trust for the purchase of two Mack Trucks. The principal payments are due annually by December 20th beginning in 2010 and are to be paid in full on December 20, 2013; interest payments are due monthly starting in January 2009. The principal balance as of June 30, 2009 is \$206,184. Debt service requirements for fiscal years ending June 30, 2009 and thereafter are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|-------------------|------------------|
| 2010 | \$ - | \$ 7,644 |
| 2011 | 45,000 | 7,129 |
| 2012 | 50,000 | 5,357 |
| 2013 | 55,000 | 3,394 |
| 2014 | 56,184 | 1,186 |
| Totals | <u>\$ 206,184</u> | <u>\$ 24,710</u> |

D. 911 Equipment

On May 29, 1998, the McCreary Fiscal Court entered into a 7-year financing obligation with KACo Leasing Trust for the purchase of 911 equipment in the amount of \$300,000. McCreary Fiscal Court refinanced the remaining balance of \$140,000 on the financing obligation June 13, 2002 for a ten-year period. The principal balance as of June 30, 2009 is \$48,000. Debt service requirements for the fiscal years ending June 30, 2009 and thereafter are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|------------------|-----------------|
| 2010 | \$ 15,400 | \$ 2,145 |
| 2011 | 16,000 | 1,338 |
| 2012 | 16,600 | 500 |
| Totals | <u>\$ 48,000</u> | <u>\$ 3,983</u> |

E. Advanced Life Saving Equipment

On April 30, 2002, the McCreary Fiscal Court entered into a 10-year financing obligation for \$85,979 with KACo Leasing Trust for the purchase of advanced life saving equipment and to make the required principal payment on the original financing obligation that was refinanced in Item E above. Principal payments are due annually on January 20th and interest payments are due monthly. The financing obligation is scheduled to be paid off in January 2012. The principal balance as of June 30, 2009 is \$30,322. Debt service requirements for the fiscal years ending June 30, 2009 and thereafter are as follows:

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Long Term Debt (Continued)

E. Advanced Life Saving Equipment (Continued)

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|------------------|-----------------|
| 2010 | \$ 9,619 | \$ 1,275 |
| 2011 | 10,099 | 799 |
| 2012 | 10,604 | 300 |
| Totals | <u>\$ 30,322</u> | <u>\$ 2,374</u> |

F. Road Equipment

On December 30, 1999, the McCreary County Fiscal Court entered into a 10-year financing obligation with KACo Leasing Trust for the purchase of road equipment. Principal payments are due annually by July 20 and interest payments are due monthly. The principal balance as of June 30, 2009 is \$31,000. Debt service requirements for the fiscal years ending June 30, 2009 and thereafter are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|------------------|---------------|
| 2010 | \$ 31,000 | \$ 151 |
| Totals | <u>\$ 31,000</u> | <u>\$ 151</u> |

G. Courthouse Renovations

On September 27, 2001, the McCreary County Fiscal Court entered into a 20-year financing obligation with Kentucky Area Development District (KADD) for the renovation of the courthouse. The principal payments are due annually by September 20th and mature in September 2021. Interest payments are due every six months starting in March 2002. The principal balance as of June 30, 2009 is \$280,000.

Debt service requirements for the fiscal years ending June 30, 2009 and thereafter are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|-------------------|-------------------|
| 2010 | \$ 15,000 | \$ 16,280 |
| 2011 | 15,000 | 15,485 |
| 2012 | 15,000 | 14,660 |
| 2013 | 20,000 | 13,685 |
| 2014 | 20,000 | 12,585 |
| 2015-2019 | 110,000 | 45,125 |
| 2020-2022 | 85,000 | 9,120 |
| Totals | <u>\$ 280,000</u> | <u>\$ 126,940</u> |

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Long Term Debt (Continued)

H. Courthouse Renovations

On September 27, 2001, the McCreary County Fiscal Court entered into a 20-year financing obligation with Kentucky Area Development District (KADD) for the purpose of financing the completion of the Administrative Office of The Courts (AOC) Courthouse Facility renovation project. The principal payments are due annually by September 20th and mature in September 2021. Interest payments are due every six months starting in March 2002. The principal balance as of June 30, 2009 is \$240,000. In accordance with the lease agreement, the debt service on this project will be paid 100% by AOC.

Debt service requirements for the fiscal years ending June 30, 2009 and thereafter are as follows:

| Fiscal Year Ended June 30 | Principal | Interest And Fees |
|------------------------------|-------------------|----------------------|
| 2010 | \$ 15,000 | \$ 13,263 |
| 2011 | 15,000 | 12,513 |
| 2012 | 15,000 | 11,733 |
| 2013 | 15,000 | 10,952 |
| 2014 | 15,000 | 10,173 |
| 2015-2019 | 95,000 | 36,424 |
| 2020-2022 | 70,000 | 7,580 |
| Totals | <u>\$ 240,000</u> | <u>\$ 102,638</u> |

I. Asphalt Truck

On July 21, 2008, the McCreary County Fiscal Court entered into a 10-year financing obligation with KACo Leasing Trust for the purchase of an asphalt truck. Principal and interest payments are due monthly by the 20th day of the month. The principal balance as of June 30, 2009 is \$108,115. Debt service requirements for the fiscal years ending June 30, 2009 and thereafter are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|-------------------|------------------|
| 2010 | \$ 10,166 | \$ 3,905 |
| 2011 | 10,556 | 3,766 |
| 2012 | 10,960 | 3,367 |
| 2013 | 11,380 | 2,938 |
| 2014 | 11,816 | 2,500 |
| 2015-2019 | 53,237 | 5,305 |
| Totals | <u>\$ 108,115</u> | <u>\$ 21,781</u> |

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Long Term Debt (Continued)

J. Ambulance

On September 12, 2006, the McCreary County Fiscal Court entered into a 5-year financing obligation with KACo Leasing Trust for the purchase of an ambulance for the total price of \$74,253. Principal and interest payments are due monthly by 20th. The principal balance as of June 30, 2009 is \$37,049. Debt service requirements for the fiscal years ending June 30, 2009 and thereafter are as follows:

| <u>Fiscal Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------------|------------------|-----------------|
| 2010 | \$ 15,331 | \$ 1,598 |
| 2011 | 16,147 | 765 |
| 2012 | 5,571 | 60 |
| Totals | <u>\$ 37,049</u> | <u>\$ 2,423</u> |

K. Stearns Improvements

On March 27, 2006, the Stearns Historical Area Development Authority (SHADA), a discretely presented component unit of McCreary county, entered into a 10 year loan agreement with Bank of McCreary County to refinance the original loan that funded the interior improvements to the Stearns Restaurant and use for the purpose of operating activities. The principal balance as of June 30, 2009 is \$36,900. SHADA leases the property to the McCreary County Heritage Foundation (not-for-profit organization), which operates the property as a historic attraction. The terms of the lease agreement state that the McCreary County Heritage Foundation will make monthly rental payments to SHADA equal to the required monthly payments due on the loan. Debt service requirements for the fiscal years ending June 30, 2009 and thereafter are as follows:

| <u>Fiscal Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------------|------------------|-----------------|
| 2010 | \$ 4,374 | \$ 1,571 |
| 2011 | 4,574 | 1,370 |
| 2012 | 4,785 | 1,160 |
| 2013 | 5,004 | 940 |
| 2014 | 4,234 | 710 |
| 2015-2016 | 13,929 | 703 |
| Totals | <u>\$ 36,900</u> | <u>\$ 6,454</u> |

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Long Term Debt (Continued)

L. Purchase and Restoration of Downtown Stearns

On February 3, 2004, the Stearns Historical Area Development Authority (SHADA), a discretely presented component unit of McCreary County, refinanced a previous loan balance of \$279,695 with Bank of McCreary County. The purpose of the original loan was to finance the renovation costs of several facilities in Stearns, Kentucky. The interest rate for the new loan is 4.84% and terms of the new loan agreement call for 180 monthly payments of \$2,186 beginning February 25, 2004. The principal balance as of June 30, 2009 is \$201,028. SHADA leases the property to the McCreary County Heritage Foundation (not-for-profit organization), which operates the property as a historic attraction. The terms of the lease agreement state that the McCreary County Heritage Foundation will make monthly rental payments to SHADA equal to the required monthly payments due on the loan. Debt service requirements for the fiscal years ending June 30, 2009 and thereafter are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|-------------------|------------------|
| 2010 | \$ 16,914 | \$ 9,322 |
| 2011 | 17,748 | 8,488 |
| 2012 | 18,623 | 7,613 |
| 2013 | 19,541 | 6,695 |
| 2014 | 20,504 | 5,732 |
| 2015-2019 | 107,698 | 12,554 |
| Totals | <u>\$ 201,028</u> | <u>\$ 50,404</u> |

Long-term activity for the year ended June 30, 2009 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------------|-------------------|---------------------|------------------------|
| Primary Government: | | | | | |
| <u>Governmental Activities:</u> | | | | | |
| Revenue Bonds | \$ 3,960,000 | \$ | \$ 215,000 | \$ 3,745,000 | \$ 225,000 |
| Financing Obligations | 914,547 | 323,184 | 146,380 | 1,091,351 | 127,015 |
| Governmental Activities Long-term Liabilities | <u>\$ 4,874,547</u> | <u>\$ 323,184</u> | <u>\$ 361,380</u> | <u>\$ 4,836,351</u> | <u>\$ 352,015</u> |
| | | | | | |
| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
| Discretely presented component unit: | | | | | |
| <u>Governmental Activities:</u> | | | | | |
| Financing Obligations | \$ 258,638 | \$ | \$ 20,710 | \$ 237,928 | \$ 21,288 |
| Governmental Activities Long-term Liabilities | <u>\$ 258,638</u> | <u>\$</u> | <u>\$ 20,710</u> | <u>\$ 237,928</u> | <u>\$ 21,288</u> |

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 8. Contingent Liability

On March 7, 2003, the McCreary County Heritage Foundation, Inc., a nonprofit corporation, obtained a \$200,000 line of credit from the Bank of McCreary County. Borrowings under the line are collateralized by property owned by the Stearns Historical Area Development Authority (SHADA). SHADA leases the property securing the line of credit to the McCreary County Heritage Foundation, Inc. to operate it as a historic attraction. While the bank note is secured by SHADA's property, the McCreary County Heritage Foundation, Inc., receives the draws on the line of credit and is responsible for making the note payments. As of June 30, 2009, the McCreary County Heritage Foundation, Inc. is in compliance with the terms of the loan and the outstanding principal balance is \$29,061.

Note 9. Employee Retirement System

The fiscal court and the Solid Waste Management Board, a discretely presented component unit, have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees hired June 30, 2008 and prior are required to contribute 5 percent of their salary to the plan. Non hazardous covered employees hired after July 1, 2008 are required to contribute 6% of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 and 14.50 percent, respectively.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 10. Insurance

For the fiscal year ended June 30, 2009, McCreary County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Litigation

McCreary County is a defendant in a lawsuit claiming negligence. The case is being defended by the County's insurance carrier. The outcome of the case is uncertain. The County has insurance coverage that should be adequate to satisfy this lawsuit in the event of an unfavorable outcome.

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MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

| | GENERAL FUND | | | |
|---|-------------------------|--------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 540,500 | \$ 637,444 | \$ 633,990 | \$ (3,454) |
| In Lieu Tax Payments | 328,200 | 335,686 | 316,107 | (19,579) |
| Excess Fees | 50,000 | 50,800 | 38,779 | (12,021) |
| Licenses and Permits | 85,300 | 85,300 | 94,611 | 9,311 |
| Intergovernmental Revenue | 3,050,750 | 555,150 | 336,082 | (219,068) |
| Charges for Services | 750,000 | 750,000 | 673,455 | (76,545) |
| Miscellaneous | 30,000 | 49,750 | 72,125 | 22,375 |
| Interest | 4,000 | 4,000 | 1,610 | (2,390) |
| Total Revenues | 4,838,750 | 2,468,130 | 2,166,759 | (301,371) |
| EXPENDITURES | | | | |
| General Government | 608,684 | 683,033 | 623,626 | 59,407 |
| Protection to Persons and Property | 1,327,067 | 1,617,831 | 1,285,449 | 332,382 |
| General Health and Sanitation | 78,354 | 107,674 | 105,680 | 1,994 |
| Social Services | 260,923 | 260,923 | | 260,923 |
| Recreation and Culture | 80,263 | 82,473 | 31,354 | 51,119 |
| Debt Service | 33,549 | 33,549 | 32,045 | 1,504 |
| Administration | 633,075 | 617,370 | 555,535 | 61,835 |
| Capital Projects | 2,500,000 | | 323,184 | (323,184) |
| Total Expenditures | 5,521,915 | 3,402,853 | 2,956,873 | 445,980 |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | (683,165) | (934,723) | (790,114) | 144,609 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Financing Obligation Proceeds | | | 323,184 | 323,184 |
| Transfers From Other Funds | 983,165 | 983,165 | 821,134 | (162,031) |
| Transfers To Other Funds | (400,000) | (400,000) | (190,000) | 210,000 |
| Total Other Financing Sources (Uses) | 583,165 | 583,165 | 954,318 | 371,153 |
| Net Changes in Fund Balance | (100,000) | (351,558) | 164,204 | 515,762 |
| Fund Balance - Beginning | 100,000 | 791,779 | 791,779 | |
| Fund Balance - Ending | \$ 0 | \$ 440,221 | \$ 955,983 | \$ 515,762 |

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

| | ROAD FUND | | | |
|---|-------------------------|------------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| In Lieu Tax Payments | \$ 50,000 | \$ 725,386 | \$ 725,386 | \$ |
| Intergovernmental Revenue | 1,470,665 | 1,684,722 | 1,345,348 | (339,374) |
| Miscellaneous | 46,000 | 65,000 | 139,710 | 74,710 |
| Interest | 3,000 | 3,000 | 2,121 | (879) |
| Total Revenues | <u>1,569,665</u> | <u>2,478,108</u> | <u>2,212,565</u> | <u>(265,543)</u> |
| EXPENDITURES | | | | |
| Transportation Facilities and Services | 100,000 | 132,500 | 131,513 | 987 |
| Roads | 1,222,970 | 1,224,970 | 723,300 | 501,670 |
| Debt Service | | 16,450 | 12,846 | 3,604 |
| Administration | 397,530 | 1,265,358 | 608,224 | 657,134 |
| Total Expenditures | <u>1,720,500</u> | <u>2,639,278</u> | <u>1,475,883</u> | <u>1,163,395</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(150,835)</u> | <u>(161,170)</u> | <u>736,682</u> | <u>897,852</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers To Other Funds | (149,165) | (149,165) | (368,509) | (219,344) |
| Transfers From Other Funds | | | | |
| Total Other Financing Sources (Uses) | <u>(149,165)</u> | <u>(149,165)</u> | <u>(368,509)</u> | <u>(219,344)</u> |
| Net Changes in Fund Balance | (300,000) | (310,335) | 368,173 | 678,508 |
| Fund Balance - Beginning | <u>300,000</u> | <u>310,335</u> | <u>310,335</u> | |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 678,508</u> | <u>\$ 678,508</u> |

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

| JAIL FUND | | | | |
|---|------------------|------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental Revenue | \$ 315,000 | \$ 405,000 | \$ 391,183 | \$ (13,817) |
| Miscellaneous | 10,000 | 21,500 | 23,634 | 2,134 |
| Interest | 100 | 100 | 74 | (26) |
| Total Revenues | 325,100 | 426,600 | 414,891 | (11,709) |
| EXPENDITURES | | | | |
| Protection to Persons and Property | 657,240 | 695,205 | 563,842 | 131,363 |
| Debt Service | 23,176 | 24,576 | 22,674 | 1,902 |
| Administration | 135,684 | 227,860 | 131,818 | 96,042 |
| Total Expenditures | 816,100 | 947,641 | 718,334 | 229,307 |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | (491,000) | (521,041) | (303,443) | 217,598 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers From Other Funds | 490,000 | 490,000 | 284,775 | (205,225) |
| Total Other Financing Sources (Uses) | 490,000 | 490,000 | 284,775 | (205,225) |
| Net Changes in Fund Balance | (1,000) | (31,041) | (18,668) | 12,373 |
| Fund Balance - Beginning | 1,000 | 31,041 | 31,041 | |
| Fund Balance - Ending | \$ 0 | \$ 0 | \$ 12,373 | \$ 12,373 |

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|------------------|------------|--|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental Revenue | \$ 100,000 | \$ 107,639 | \$ 139,340 | \$ 31,701 |
| Miscellaneous Revenues | 200,276 | 200,276 | | (200,276) |
| Interest | 1,000 | 1,000 | 586 | (414) |
| Total Revenues | 301,276 | 308,915 | 139,926 | (168,989) |
| EXPENDITURES | | | | |
| Roads | 600 | 2,765 | 1,200 | 1,565 |
| Debt Service | 207,423 | 238,423 | 235,872 | 2,551 |
| Administration | 143,253 | 387,855 | | 387,855 |
| Total Expenditures | 351,276 | 629,043 | 237,072 | 391,971 |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | (50,000) | (320,128) | (97,146) | 222,982 |
| Net Changes in Fund Balances | (50,000) | (320,128) | (97,146) | 222,982 |
| Fund Balances - Beginning | 50,000 | 320,128 | 318,563 | (1,565) |
| Fund Balances - Ending | \$ 0 | \$ 0 | \$ 221,417 | \$ 221,417 |

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|------------------|--------------|--|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental Revenues | \$ | \$ 2,849,000 | \$ 1,848,386 | \$ (1,000,614) |
| Total Revenues | | 2,849,000 | 1,848,386 | (1,000,614) |
| EXPENDITURES | | | | |
| Social Services | | 2,022 | 2,022 | |
| Capital Projects | 180,000 | 3,026,978 | 2,035,915 | 991,063 |
| Total Expenditures | 180,000 | 3,029,000 | 2,037,937 | 991,063 |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | (180,000) | (180,000) | (189,551) | (9,551) |
| OTHER FINANCING SOURCES | | | | |
| Transfers From Other Funds | 180,000 | 180,000 | 189,551 | 9,551 |
| Total Other Financing Sources | 180,000 | 180,000 | 189,551 | 9,551 |
| Net Changes in Fund Balances | | | | |
| Fund Balances - Beginning | | | | |
| Fund Balances - Ending | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

| OCCUPATIONAL TAX FUND | | | | |
|---|-------------------------|--------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 900,000 | \$ 900,000 | \$ 998,388 | \$ 98,388 |
| Interest | 1,500 | 1,500 | 748 | (752) |
| Total Revenues | 901,500 | 901,500 | 999,136 | 97,636 |
| EXPENDITURES | | | | |
| Recreation & Culture | | 144,275 | 200,609 | (56,334) |
| Total Expenditures | | 144,275 | 200,609 | (56,334) |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | 901,500 | 757,225 | 798,527 | 41,302 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers To Other Funds | (951,500) | (807,225) | (784,339) | 22,886 |
| Total Other Financing Sources (Uses) | (951,500) | (807,225) | (784,339) | 22,886 |
| Net Changes in Fund Balances | (50,000) | (50,000) | 14,188 | 64,188 |
| Fund Balances - Beginning | 50,000 | 50,000 | 27,483 | (22,517) |
| Fund Balances - Ending | \$ 0 | \$ 0 | \$ 41,671 | \$ 41,671 |

MCCREARY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation of Budgetary Comparison Schedules to Statement of Revenues, Expenditures, And Changes In Fund Balances

| | |
|---|----------------------------|
| General Fund - Operating Expenditures per Budgetary Comparison Schedule | \$ 2,956,873 |
| Add: General Fund fuel costs paid from Road Fund | 19,040 |
| Less: Payment for prior year fuel cost paid from Road Fund | <u>(75,062)</u> |
| General Fund - Operating Expenditures per Statement of Revenues, Expenditures, and Changes In Fund Balances | <u><u>\$ 2,900,851</u></u> |
| Road Fund - Actual Revenues per Budgetary Comparison Schedules | \$ 2,212,565 |
| Less: Payments to Road Fund for fuel costs | <u>(75,292)</u> |
| Road Fund - Operating Revenues per Statement of Revenues, Expenditures, and Changes In Fund Balances | <u><u>\$ 2,137,273</u></u> |

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MCCREARY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

MCCREARY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

| | Rural Business Enterprise Grant Revolving Loan Fund | Emergency 911 Dispatch Fund | Champions Fund | Senior Fund | Smart Works Fund |
|---------------------------|--|--|---------------------------|------------------------|---------------------------------|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 51,214 | \$ 62,332 | \$ | \$ | \$ 88,179 |
| Total Assets | <u>51,214</u> | <u>62,332</u> | | | <u>88,179</u> |
| FUND BALANCES | | | | | |
| Unreserved: | | | | | |
| Special Revenue Funds | <u>51,214</u> | <u>62,332</u> | | | <u>88,179</u> |
| Total Fund Balance | <u>\$ 51,214</u> | <u>\$ 62,332</u> | <u>\$</u> | <u>\$</u> | <u>\$ 88,179</u> |

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2009
(Continued)

| Disaster Assistance Fund | Kentucky Association of Counties Leasing Trust Acquisition 911 Equipment Fund | | Total Non-Major Governmental Funds |
|---|--|---|---|
| | | | |
| \$ 19,483 | \$ | 2 | \$ 221,210 |
| 19,483 | | 2 | 221,210 |
| 19,483 | | 2 | 221,210 |
| \$ 19,483 | \$ | 2 | \$ 221,210 |

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

MCCREARY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

| | Rural Business Enterprise Grant Revolving Loan Fund | Emergency 911 Dispatch Fund | Champions Fund | Senior Fund | Smart Works Fund |
|---|--|--|---------------------------|------------------------|---------------------------------|
| REVENUES | | | | | |
| Taxes | \$ | \$ 206,529 | \$ | \$ | \$ |
| Intergovernmental | | | 28,672 | | |
| Miscellaneous | 14,270 | | | | 28,858 |
| Interest | 4,185 | 182 | | | 10,914 |
| Total Revenues | <u>18,455</u> | <u>206,711</u> | <u>28,672</u> | | <u>39,772</u> |
| EXPENDITURES | | | | | |
| General Government | 50,000 | | | | 25,936 |
| Protection to Persons and Property | | 175,561 | | | |
| Social Services | | | 29,412 | | |
| Recreation and Culture | | | | 2,197 | |
| Debt Service | | 29,039 | | | |
| Administration | | 51,329 | | | |
| Total Expenditures | <u>50,000</u> | <u>255,929</u> | <u>29,412</u> | <u>2,197</u> | <u>25,936</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(31,545)</u> | <u>(49,218)</u> | <u>(740)</u> | <u>(2,197)</u> | <u>13,836</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers From Other Funds | | 47,388 | | | |
| Transfers To Other Funds | | | | | |
| Total Other Financing Sources (Uses) | | <u>47,388</u> | | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | (31,545) | (1,830) | (740) | (2,197) | 13,836 |
| Fund Balances - Beginning | 82,759 | 64,162 | 740 | 2,197 | 74,343 |
| Fund Balances - Ending | <u>\$ 51,214</u> | <u>\$ 62,332</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 88,179</u> |

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009
(Continued)

| Disaster Assistance Fund | Kentucky Association of Counties Leasing Trust Acquisition 911 Equipment Fund | Total Non-Major Governmental Funds |
|---|--|---|
| \$ | \$ | \$ 206,529 |
| | | 28,672 |
| | | 43,128 |
| 74 | | 15,355 |
| 74 | | 293,684 |
| | | 75,936 |
| 6,898 | | 182,459 |
| | | 29,412 |
| | | 2,197 |
| | | 29,039 |
| | | 51,329 |
| 6,898 | | 370,372 |
| (6,824) | | (76,688) |
| | | 47,388 |
| | | - |
| | | 47,388 |
| (6,824) | | (29,300) |
| 26,307 | 2 | 250,510 |
| \$ 19,483 | \$ 2 | \$ 221,210 |

The accompanying notes are an integral part of the financial statements.

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COMPONENT UNITS OF MCCREARY COUNTY
BALANCE SHEETS - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

**SOLID WASTE MANAGEMENT BOARD
COMPONENT UNITS OF MCCREARY COUNTY
BALANCE SHEETS - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2009

| | <u>General Fund</u> |
|---------------------------|--------------------------------|
| ASSETS | |
| Cash and Cash Equivalents | <u>\$ 29,610</u> |
| Total Assets | <u><u>29,610</u></u> |
| FUND BALANCE | |
| Unreserved | <u>29,610</u> |
| Total Fund Balance | <u><u>\$ 29,610</u></u> |

The accompanying notes are an integral part of the financial statements.

**TOURISM COMMISSION
COMPONENT UNITS OF MCCREARY COUNTY
BALANCE SHEETS - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2009

| | <u>General Fund</u> |
|---------------------------|-----------------------------|
| ASSETS | |
| Cash and Cash Equivalents | <u>\$ 19,122</u> |
| Total Assets | <u><u>19,122</u></u> |
| FUND BALANCE | |
| Unreserved | <u>19,122</u> |
| Total Fund Balance | <u><u>\$ 19,122</u></u> |

The accompanying notes are an integral part of the financial statements.

**MCCREARY COUNTY AIRPORT BOARD
 COMPONENT UNITS OF MCCREARY COUNTY
 BALANCE SHEETS - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2009

| | <u>General Fund</u> |
|---------------------------|----------------------------|
| ASSETS | |
| Cash and Cash Equivalents | <u>\$ 63,225</u> |
| Total Assets | <u><u>63,225</u></u> |
| FUND BALANCE | |
| Unreserved | <u>63,225</u> |
| Total Fund Balance | <u><u>\$ 63,225</u></u> |

Reconciliation to Statement of Net Assets:

| | |
|--|--------------------------|
| Total Fund Balance - McCreary County Airport Board | \$ 63,225 |
| Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because: | |
| Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds. | 748,295 |
| Accumulated Depreciation | <u>(61,545)</u> |
| Net Assets Of McCreary County Airport Board | <u><u>\$ 749,975</u></u> |

The accompanying notes are an integral part of the financial statements.

**STEARNS HISTORICAL AREA DEVELOPMENT AUTHORITY
 COMPONENT UNITS OF MCCREARY COUNTY
 BALANCE SHEETS - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2009

| | <u>General Fund</u> |
|---------------------------|----------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 2,896 |
| Total Assets | <u>2,896</u> |
| FUND BALANCE | |
| Unreserved | <u>2,896</u> |
| Total Fund Balance | <u>\$ 2,896</u> |

Reconciliation to Statement of Net Assets:

| | |
|--|-------------------|
| Total Fund Balance - Stearns Historical Area Development Authority | \$ 2,896 |
| Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because: | |
| Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds. | 1,997,483 |
| Accumulated Depreciation | (770,118) |
| Long Term Debt Is Not Due and Payable In The Current Period, and Therefore Is Not Reported In The Funds | |
| Financing Obligations | <u>(237,928)</u> |
| Net Assets Of Stearns Historical Area Development Authority | <u>\$ 992,333</u> |

The accompanying notes are an integral part of the financial statements.

**MCCREARY COUNTY PARK BOARD
COMPONENT UNITS OF MCCREARY COUNTY
BALANCE SHEETS - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2009

| | <u>General Fund</u> |
|---------------------------|----------------------------|
| ASSETS | |
| Cash and Cash Equivalents | <u>\$ 173,935</u> |
| Total Assets | <u><u>173,935</u></u> |
| FUND BALANCE | |
| Unreserved | <u>173,935</u> |
| Total Fund Balance | <u><u>\$ 173,935</u></u> |

The accompanying notes are an integral part of the financial statements.

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**COMPONENT UNITS OF MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITUES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2009

SOLID WASTE MANAGEMENT BOARD
COMPONENT UNITS OF MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

| | General Fund |
|--|-------------------------|
| REVENUES | |
| Intergovernmental Revenues | \$ 36,596 |
| Total Revenues | <u>36,596</u> |
| EXPENDITURES | |
| General Health and Sanitation | <u>34,232</u> |
| Total Expenditures | <u>34,232</u> |
| Deficiency of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>2,364</u> |
| Net Change in Fund Balances | 2,364 |
| Fund Balances - Beginning | <u>27,246</u> |
| Fund Balances - Ending | <u><u>\$ 29,610</u></u> |

The accompanying notes are an integral part of the financial statements.

TOURISM COMMISSION
COMPONENT UNITS OF MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS- MODIFIED CASH BASIS

For The Year Ended June 30, 2009

| | General Fund |
|--|-------------------------|
| REVENUES | |
| Intergovernmental Revenues | \$ 68,406 |
| Interest | 94 |
| Total Revenues | <u>68,500</u> |
| EXPENDITURES | |
| Recreation and Culture | <u>69,502</u> |
| Total Expenditures | <u>69,502</u> |
| Deficiency of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(1,002)</u> |
| Net Change in Fund Balances | (1,002) |
| Fund Balances - Beginning | <u>20,124</u> |
| Fund Balances - Ending | <u><u>\$ 19,122</u></u> |

The accompanying notes are an integral part of the financial statements.

**MCCREARY COUNTY AIRPORT BOARD
 COMPONENT UNITS OF MCCREARY COUNTY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

| | General Fund |
|--|-------------------------|
| REVENUES | |
| Intergovernmental Revenues | \$ 20,819 |
| Charges For Services | 1,242 |
| Miscellaneous | 437 |
| Lease Income | 3,380 |
| Interest | 1,593 |
| Total Revenues | <u>27,471</u> |
| EXPENDITURES | |
| Airport Operations | 3,676 |
| Capital Projects | 10,121 |
| Total Expenditures | <u>13,797</u> |
| Deficiency of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>13,674</u> |
| Net Change in Fund | 13,674 |
| Fund Balances - Beginning | 49,551 |
| Fund Balances - Ending | <u><u>\$ 63,225</u></u> |

Reconciliation to the Statement of Activities:

| | |
|--|-------------------------|
| Net Change in Fund Balance - McCreary County Airport Board | \$ 13,674 |
| Governmental Fund report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. | |
| Capital Outlay | 10,121 |
| Depreciation Expense | <u>(13,139)</u> |
| Change In Net Assets Of McCreary County Airport Board | <u><u>\$ 10,656</u></u> |

The accompanying notes are an integral part of the financial statements.

**STEARNS HISTORICAL AREA DEVELOPMENT AUTHORITY
 COMPONENT UNITS OF MCCREARY COUNTY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

| | General Fund |
|---------------------------|-------------------------|
| REVENUES | |
| Miscellaneous | \$ 29,787 |
| Total Revenues | <u>29,787</u> |
| EXPENDITURES | |
| Debt Service | <u>32,469</u> |
| Total Expenditures | <u>32,469</u> |
| Net Change in Fund | (2,682) |
| Fund Balances - Beginning | <u>5,578</u> |
| Fund Balances - Ending | <u><u>\$ 2,896</u></u> |

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - Stearns Historical Area Development Authority \$ (2,682)

Governmental Fund report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Depreciation Expense (52,466)

Financing Obligations principal payments are expended in the Governmental Funds as a use of current financial resources

Financing Obligation Payments 20,710

Change In Net Assets Of Stearns Historical Area Development Authority \$ (34,438)

**MCCREARY COUNTY PARK BOARD
 COMPONENT UNITS OF MCCREARY COUNTY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

| | General Fund |
|--|--------------------------|
| REVENUES | |
| Intergovernmental Revenues | \$ 274,271 |
| Donations | 220,350 |
| Miscellaneous | 4,014 |
| Interest | 1,385 |
| Total Revenues | <u>500,020</u> |
| EXPENDITURES | |
| Recreation and Culture | 48,868 |
| Capital Projects | 875,214 |
| Debt Service | 111,098 |
| Total Expenditures | <u>1,035,180</u> |
| Excess of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(535,160)</u> |
| OTHER FINANCING SOURCES (USES) | |
| Loan Proceeds | <u>110,000</u> |
| Total Other Financing Sources (Uses) | <u>110,000</u> |
| Net Change in Fund Balances | (425,160) |
| Fund Balances - Beginning | <u>599,095</u> |
| Fund Balances - Ending | <u><u>\$ 173,935</u></u> |

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

CHRISTIAN, STURGEON & ASSOCIATES, PSC
Certified Public Accountants
1075 EAST FOURTH STREET
P.O. BOX 901
LONDON, KENTUCKY 40743
Telephone (606) 878-0861
Fax (606) 864-3003

The Honorable Blaine Phillips, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of McCreary County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated October 30, 2009. We issued an adverse opinion on the aggregate discretely presented component opinion unit because the financial statements of the McCreary County Industrial Development Authority, a discretely presented component unit, were not included in the financial statements. McCreary County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McCreary County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McCreary County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of McCreary County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2009-01, 2009-02, 2009-03, and 2009-04.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether McCreary County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations. These findings are as follows: 2009-05 and 2009-06.

McCreary County's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit their responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectively Submitted,

Christian, Sturgeon & Associates, PSC
Certified Public Accountants

October 30, 2009

McCreary County
Comments and Recommendations
June 30, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2009-01 The Fiscal Court Should Pay Invoices Within Thirty Days

During our testing of debt service payments we noted 8 invoices were paid late. KRS 65.140 requires all bills for goods and services to be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor. We recommend the County comply with KRS 65.140 by paying for all goods and services within thirty (30) working days. This is an improvement over prior years, but is an area that continues to need attention.

Management's Response: Fiscal Court exercises a great deal of effort in complying with the requirement of paying within thirty days. This will always be an issue for some invoices due to the timing of meetings.

2009-02 Lack of Segregation Of Duties Over The Jail Canteen Account

The bookkeeper of the jail canteen is responsible for making deposits, writing and signing checks and financial reporting. This creates a weakness in internal controls. We recommend that the jailer consider costs versus benefits of implementing stronger internal controls related to the jail canteen fund.

Management's Response: The jailer does not feel that it would be cost beneficial to hire additional employees.

SIGNIFICANT DEFICIENCIES - DISCRETELY PRESENTED COMPONENT UNITS:

2009-03 The Stearns Historical Area Development Authority Should Implement Compensating Internal Controls

Due to the small size of the Stearns Historical Area Development Authority (SHADA), a proper segregation of duties may not be possible; therefore, we recommend SHADA implement the following compensating or alternative internal controls:

- As required by the ordinance and as an additional control, SHADA's Secretary/Treasurer shall execute an official bond to be set and approved by SHADA.
- As required by the ordinance and as an additional control, SHADA's Secretary/Treasurer should transmit, at least once annually, a detailed report of all activities of SHADA to the Fiscal Court for their review.

Management's Response: This matter will be corrected.

2009-04 The Bank Accounts Of The Tourism Commission Are Not Reconciled And Cash Receipts And Disbursements Are Not Recorded

During our testing of the Tourism Commission we noted that bank reconciliations were not being prepared nor were receipts and disbursements being recorded. Strong internal controls require that bank accounts are reconciled and a general ledger be prepared. We recommend that a bonded individual perform these functions.

Managements Response: Blaine Phillips will review this matter with the Tourist Commission and take corrective action.

McCreary County
Comments and Recommendations
June 30, 2009 (Continued)

STATE LAWS AND REGULATIONS - PRIMARY GOVERNMENT:

2009-05 The Jailer Did Not Report Annually To The County Treasurer On The Jail Canteen Account

During the fiscal year ended June 30, 2009, the jailer did not report annually to the county treasurer on the commissary account as required by KRS 441.135 (2) which states the jailer shall keep books of accounts of all receipts and disbursements from the commissary account and shall annually report to county treasurer on the commissary account. We recommend the jailer comply with KRS 441.135 (2).

Management's Response: We will begin to do this for FY 2010.

2009-06 The County Did Not Pay Retirement On Qualified Part-time Employees

Any county employee who averages one hundred (100) hours or more per month is required to participate in Kentucky's County Employees Retirement System (CERS) pursuant to KRS 61.565. A review of the non-full-time hourly employees identified eight employees eligible but not in the retirement system. More specifically, four employees worked in the Ambulance Service, five employees worked in the Detention Center, and one employee worked in the Sheriff's Office.

The liability for the unpaid contributions total \$22,507, with \$16,424 representing the County's portion for year ended June 30, 2009 and prior years of \$53,193, with \$36,254 representing the County's portion.

We recommend all part-time employees' average hours be checked monthly and require participation and coverage in the CERS as required. We further recommend the proper authorities be contacted to correct this issue.

Management's Response: In July, 2009 this matter has been corrected. The Fiscal Court will address the issue of arrearages.

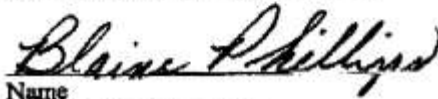
**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

MCCREARY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2009**

MCCREARY COUNTY
CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
For The Year Ended June 30, 2009

The McCreary County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

